

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

CAREY M. FLYNT

October 9, 2009



DOCKET NO. 2009-5-G

**ANNUAL REVIEW OF PURCHASED GAS
ADJUSTMENT AND GAS PURCHASING
POLICIES OF SOUTH CAROLINA
ELECTRIC & GAS COMPANY**

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DIRECT TESTIMONY OF CAREY M. FLYNT**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2009-5-G****IN RE: ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND GAS****PURCHASING POLICIES OF SOUTH CAROLINA ELECTRIC & GAS COMPANY**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Carey M. Flynt. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Program Manager of the Gas Department for the South Carolina Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration, with a major in Accounting from the University of South Carolina in Columbia in 1975. I was employed at that time in the electric and gas utility industry and gained twenty-five years of experience in this field. In mid October 2004, I joined ORS in my present position. I have testified on numerous occasions before the Public Service Commission of South Carolina ("Commission") in conjunction with natural gas issues.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony will present ORS's findings and recommendations for South Carolina Electric & Gas Company ("SCE&G") or ("Company") regarding the Company's:

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1 1) natural gas purchasing policies for the extended seventeen (17) month review period
2 of March 2008 through July 2009, as well as the Company's ability to serve the firm
3 customers for the upcoming winter season;

4 2) recovery of its purchased gas cost through the purchased gas adjustment ("PGA") or
5 gas cost recovery mechanism;

6 3) updated calculation of the demand cost of gas ("DCOG") allocation factors;

7 4) proposed change to the amount defined as a "material difference" that requires the
8 implementation of new monthly gas cost factors;

9 5) hedging program; and other matters.

10 **Q. WHAT ARE ORS'S FINDINGS WITH REGARD TO THE COMPANY'S GAS**
11 **PURCHASING POLICIES DURING THE REVIEW PERIOD?**

12 **A.** During the review period, SCE&G was responsible for purchasing natural gas
13 commodity supplies from multiple sources, managing its contracts with three (3)
14 upstream interstate pipelines for firm transportation and storage capacity assets, including
15 Southern Natural Gas Company ("Southern"), Transcontinental Gas Pipeline Corporation
16 ("Transco") and Carolina Gas Transmission Corporation ("CGTC"), as well as operations
17 of the Company's two (2) liquefied natural gas ("LNG") facilities. It is ORS's finding
18 that SCE&G purchased natural gas commodity supplies, managed its transportation and
19 storage capacity assets, and operated its LNG facilities to meet firm customers' needs and
20 provide reliable service at costs consistent with Commission approved tariffs.

21 **Q. PLEASE COMMENT ON ORS'S REVIEW TO ENSURE THAT NATURAL GAS**
22 **SUPPLIES AND CAPACITY ASSETS ARE READILY AVAILABLE TO FIRM**
23 **CUSTOMERS DURING EXTREMELY COLD WEATHER.**

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1 **A.** ORS met with SCE&G representatives numerous times regarding the
2 management of its supply, upstream transportation and storage capacity assets, its two
3 LNG plants, as well as its ability to reliably deliver gas to meet firm customers' peak
4 demand. In addition, ORS reviewed the Company's contracted levels for supply,
5 interstate capacity for firm transportation and storage service, and its ability to deliver gas
6 to the firm end-user during extreme cold weather. ORS's review finds that SCE&G met
7 its firm customers' needs in a reliable manner during the review period. It is also ORS's
8 opinion that the Company is prepared to meet next winter's projected firm customers'
9 requirements in a reliable manner.

10 **Q. PLEASE DESCRIBE THE COMPANY'S GAS COST RECOVERY**
11 **PROCEDURES APPROVED BY THIS COMMISSION.**

12 **A.** The Commission approved SCE&G's gas cost recovery mechanism in Order No.
13 2005-653, dated November 8, 2005. In that order, a change to a two-part cost of gas
14 recovery mechanism was approved. That mechanism involves: 1) a commodity
15 component which is calculated to recover the commodity cost of gas purchased; and 2) a
16 demand component which is calculated to recover the associated capacity cost. The
17 demand charges include the fixed charges by upstream pipelines for transportation and
18 storage services. The current "Purchased Gas Adjustment, Firm Gas Only" tariff sheets
19 were approved by this Commission in Order No. 2007-595, dated September 6, 2007.

20 **Q. PLEASE DISCUSS THE OPERATION OF THE TWO-PART COST OF GAS**
21 **RECOVERY MECHANISM.**

22 **A.** All firm customers are charged the same Firm Commodity Benchmark cost.
23 However, the Demand Charge cost component is calculated for each customer class

(Residential, Small/Medium General Service, and Large General Service) based on a fifty-fifty percent (50%-50%) weighting of Peak Design Day Demand ("PDDD") and Annual Forecast Sales volumes. In computing the Demand Charge component for the firm customers, seventy-five percent (75%) of the revenue generated from capacity release of upstream assets, as well as net revenues from interruptible sales and transportation service are credited against the demand charges. Added together, these two components, (i.e. the commodity and demand costs) equal the PGA factor for each firm customer class.

Q. DOES ORS AGREE WITH THE PROPOSED DCOG ALLOCATION FACTORS UPDATED FOR THE COMPANY'S CURRENT FORECAST AND THEIR IMPLEMENTATION EFFECTIVE FOR THE FIRST BILLING CYCLE IN JANUARY 2010?

A. Yes. The Company's demand cost of gas factors are developed to allocate demand costs between rate classes in proportion to how the rate classes impact demand requirements and utilize SCE&G's natural gas system. ORS has reviewed the calculations, updated for the Company's current annual sales and peak design day demand forecast, and agrees with the proposed demand cost of gas factors. ORS also agrees to the Company's proposal to implement these DCOG allocation factors effective for the first billing cycle in January 2010.

Q. DURING THE REVIEW PERIOD, DID SCE&G FILE WITH THE COMMISSION MONTHLY CHANGES IN THE PGA FACTORS RESULTING FROM THE TWELVE (12) MONTH ROLLING FORECAST OF GAS COSTS?

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1 **A.** Yes. Under the provisions of Order No. 2006-679, SCE&G is allowed to make
2 monthly adjustments in its PGA factors as supplier or capacity gas costs change after the
3 Company completes an updated monthly forecast if there is a “material difference” for
4 any customer class equal to or greater than \$0.01 per therm. In this review period, the
5 Company filed for changes in its PGA factor in twelve (12) of the seventeen (17) months.
6 ORS’s review found the Company changed the factors during the review period in a
7 manner consistent with the current Commission approved tariffs and Commission Orders.

8 **Q. WHAT IS THE OPINION OF ORS REGARDING SCE&G’S PGA FACTORS**
9 **BEING CALCULATED EACH MONTH ON A ROLLING TWELVE (12)**
10 **MONTH BASIS AND THE CONTINUATION OF THIS METHOD?**

11 **A.** ORS believes SCE&G’s computation of its PGA factors on a rolling twelve month
12 forecast and allowing changes to the PGA factors on a monthly basis should be continued.
13 With the volatility in the price of natural gas supplies and other changes such as economic
14 conditions, this method allows the flexibility to possibly mitigate the accumulation of a
15 large over or under collection balance as may occur if PGA factor updates were only
16 permitted at the end of an annual review period. ORS believes this method is beneficial to
17 both the Company and its firm customers.

18 **Q. WHAT IS THE OPINION OF ORS REGARDING SCE&G’S PROPOSAL TO**
19 **CHANGE THE AMOUNT DEFINED AS “A MATERIAL DIFFERENCE” THAT**
20 **REQUIRES THE IMPLEMENTATION OF NEW MONTHLY GAS COST**
21 **FACTORS?**

22 **A.** ORS agrees with the reasoning set forth in the Company’s pre-filed testimony and
23 supports the Company’s proposed increase in the threshold from \$.01 or more per therm

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1 to greater than \$.04 per therm, as well as the provision of allowing the Company to
2 change the factor at its discretion if the recalculation indicates the change is less than or
3 equal to \$.04 per therm.

4 **Q. HAS ORS REVIEWED THE PROPOSED REVISIONS TO SCE&G'S PGA**
5 **TARIFF THAT ARE NECESSARY TO REFLECT THE COMPANY'S**
6 **PROPOSED CHANGE TO THE "MATERIAL DIFFERENCE" THRESHOLD?**

7 **A.** Yes. Company witness Ms. Fox filed supplemental testimony with the parties to
8 this docket on September 30, 2009, revising the PGA Tariff to reflect the "material
9 difference" threshold from \$.01 or more per therm to greater than \$.04 per therm and the
10 provision stated above. ORS has reviewed the proposed tariff revisions and agrees with
11 the information included in the Company's supplemental testimony.

12 **Q. WHAT ARE ORS'S FINDINGS REGARDING THE COMPANY'S PURCHASED**
13 **GAS ADJUSTMENT CLAUSE FOR THE REVIEW PERIOD?**

14 **A.** ORS finds that SCE&G administered and recovered its gas costs during the
15 review period in a manner consistent with the current Commission approved tariffs and
16 Commission Orders.

17 **Q. WHAT ARE THE RESULTS OF SCE&G'S HEDGING PROGRAM?**

18 **A.** As stated and shown in ORS witness Mr. Barnette's testimony in Exhibit RHB-5,
19 the balance resulting from SCE&G's hedging program during this seventeen (17) month
20 review period, March 2008 through July 2009, has added approximately one and one-half
21 million dollars (\$1.5M) to the Company's cost of gas. It is the opinion of ORS that the
22 Company operated its hedging program under the terms approved in Commission Order
23 No. 2006-679 and modified by Commission Order No. 2008-546.

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1 **Q. DOES ORS HAVE ANY COMMENTS REGARDING SOUTHERN NATURAL**
2 **GAS COMPANY'S RATE CASE AS INCLUDED IN THE COMPANY'S**
3 **TESTIMONY?**

4 **A.** Yes. ORS intervened in this FERC docket and is keeping abreast of this FERC
5 docket.

6 **Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?**

7 **A.** Yes, it does.